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Exporter Guide

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Report Highlights:

A revived economy with burgeoning tourism as well as rising stock and property markets provided U.S. exporters with promising export opportunities in Hong Kong. Between January – July 2005 compared with the same period last year, retail sales of food in traditional markets and supermarkets increased 4.9 percent and 5.9 percent respectively. For the first half-year of 2005, total restaurant receipts amounted to \$3.5 billion, representing a rise of 5.3 percent over the same period in 2004. This report provides a snapshot of the Hong Kong market with a general background of the economy, retail and HRI sectors, and trade statistics.

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SECTION I. Market Overview

Food Imports

- Hong Kong is an important market for consumer-oriented American foods and ranks number eight as a U.S. export destination for these products. Hong Kong imported over \$800 million of consumer-oriented products from the United States in 2004 accounting for 16 percent of the market share. Of all U.S. consumer-oriented exports to Hong Kong, poultry meat, fresh fruit, processed fruit & vegetables and tree nuts are the leading items. For fish and seafood products, the United States exported \$50 million worth of products to Hong Kong, maintaining 3 percent of the market share.
- Due to limited land resources and rapid urbanization, Hong Kong has to rely heavily on imports for its food supply. In 2004, local production contributed only 4 percent of fresh vegetables, 41 percent of live poultry, and 22 percent of live pigs. However, Hong Kong's total imports of consumer-oriented products and fish & seafood products amounted to \$4.9 billion and \$1.8 billion respectively.

Economy

- Being one of the most affluent economies in Asia, Hong Kong's 2005 forecast per capita GDP is \$24,200.
- The Hong Kong economy has exhibited a solid, broad-based upturn. In the first half of 2005, real GDP rose by 6.5 percent, following a growth of 8.1 percent in 2004, amid robust performance of the external sector and an upsurge of consumer spending and investment. On account of the prevailing upturn, the official forecast of GDP growth is maintained at 4.5 to 5.5 percent for 2005.
- The second phase of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA II) was concluded in August 2004, providing further liberalisation measures on trade in goods and services entering the mainland and promising great benefits for Hong Kong's economy. It's expected to provide a new source of growth for the city's economy.
- After more than five years of decline, the monthly consumer prices rose again from July 2004 onwards. In the first eight months of 2005, consumer prices posted a modest gain of 0.8 percent.
- Tourist arrivals increased by 40.4 percent to 21.8 million in 2004 and 7.8 percent to 15 million for the first eight months of 2005. Hong Kong Disneyland, which was opened in September this year, has become a popular tourist attraction. In the coming year, the Tung Chung Cable Car System, Hong Kong Wetland Park and 23 hotel projects will be completed. All these are favorable factors for tourism growth. In 2004, tourists spent \$1,052 million in restaurants other than meals taken in hotels, accounting for 14 percent of Hong Kong's HRI business. As such, a robust tourism not only has the merit of stimulating a series of peripheral businesses but also has a positive direct impact on HRI revenue.

Demographic Factors

- Two demographic trends contribute to the good potential for "convenience" and processed foods. 1. An increasing number of women in the work force. In 2004, 51.8 % of women in Hong Kong were in the labor force. 2. A youthful work force:

56.1 percent of the labor force is in the age group of 25 - 44. In addition, this younger population is very receptive to new food varieties.

Advantages	Challenges
World's freest economy (Economic Freedom of the World, 2004 Annual Report, published by the Cato Institute of the United States in conjunction with the Fraser Institute of Canada and some 50 other research institutes around the world). Consistent free trade and free enterprise policies. No import duty except on wine, liquor, cigarettes, hydrocarbon oils and methyl alcohol. Separate customs territory from Mainland China. No foreign exchange controls.	Severe competition between different supplying countries.
H.K. dollar pegged to the U.S. dollar, so U.S. products are not subject to price fluctuations based on exchange rates. (Can be a disadvantage when U.S. dollar is strong. Then products from other supplying countries become more price competitive compared to U.S. products.)	A very price sensitive market; importers' buying decisions depend largely on price.
Foreign and local businesses operate on a level playing field.	U.S. products are disadvantaged by a higher transport cost when compared with Australian and Chinese products.
As one of the most affluent economies in Asia, a market leader for new products.	Lack of trader and consumer awareness of U.S. foods. Traditional preference for European foods, due to previous ties with the U.K.
International city; residents travel frequently and are receptive to western and novel food.	A virtual duopoly in food retailing allows retailers to charge high slotting (shelf space) fees. See section on Supermarkets.
Sophisticated, reliable banking system.	
Consistent import regulations and rule of law.	

SECTION II. EXPORTER BUSINESS TIPS

Importer Lists

ATO provides Hong Kong importer lists to U.S. exporters and assists to arrange meeting appointments provided adequate lead time is given.

Language

The official written languages in Hong Kong are Chinese and English. The official spoken languages are Cantonese (the prominent Chinese dialect in Hong Kong and South China) and English. In general, all correspondence can be in English.

Travel Visa

Even though Hong Kong is now part of China, there is still a border boundary between Hong Kong and China. If you are traveling with a U.S. passport, you do not need a travel visa for Hong Kong. However, if you are planning to go to Mainland China, you need to apply for a travel visa into China.

Legal System

Hong Kong's legal system is firmly based on the rule of law and the independence of the judiciary. Hong Kong's legal system is separate from Mainland China. Also, Hong Kong is a separate customs territory from China.

Payment

Hong Kong importers are willing to pay by letter of credit in the beginning. When a trading relationship has been established, many of them prefer to pay by open accounts so as to cut transaction costs.

General Consumer Tastes and Preferences

- There has been growing popularity of frozen foodstuffs because many working women cannot afford the time to do grocery shopping daily. Besides, more and more consumers believe that frozen foods are more hygienic. However, Hong Kong consumers in general still prefer fresh foodstuffs, particularly fish.
- Hong Kong's relatively sophisticated shoppers are buying an increasing percentage of their groceries in supermarkets, as opposed to traditional wet markets. On the other hand, supermarket chains are able to offer products at more competitive pricing because they have a strong bargaining power at getting supplies and are able to reap the merits of economies of scale.
- According to a recent survey conducted by AC Nielsen, meats and produce account for 54 percent and 40 percent respectively of the household food expenditure.
- Since ice-cream is the most popular snack, Hong Kong has witnessed the opening of more and more ice-cream specialty shops such as New Zealand Natural, Kida Garden, Papagallo, along with the long established Ben & Jerry's, Double Rainbow and Haggen Daz.
- Hong Kong consumers' buying decision is largely based on for value money. Generally, consumers are not brand loyal when they are faced with discount privileges of another brand or with "out-of-stock" situation.
- Because of the limited living space in Hong Kong, it is inconvenient for Hong Kong consumers to store food products. Therefore, bulk pack food products do not sell well in Hong Kong, and small package food products are preferred.

- There is most potential for growth in the processed/convenience sectors of Hong Kong's retail food markets for U.S. high value consumer foods such as general grocery items, ingredients for home meal replacement, and health food.
- Due to the increasing prevalence of dual income families, ready-to-cook food has become more popular. The major supermarket chains in Hong Kong have been putting more emphasis on convenience foods.
- Hong Kong consumers have become increasingly more aware of food safety issues and nutrition values of food products. Clear indications of nutritional value on the package are certainly a good marketing strategy for health foods. (The Hong Kong government is planning to regulate nutrition labeling and health claims. Details please refer to report HK5020.)
- The sales of organic products have been increasing steadily. A representative of the Great Supermarket revealed that there were only 200 organic items for sale three years ago; the variety has greatly expanded to over 2000 items this year. The price discrepancy between conventional and organic foods has also narrowed over the years. Currently, organic products are priced generally 10% higher. The most popular organic products are baby foods.
- Health foods continue to grow in popularity in Hong Kong because of consumers' desire to enhance general health. A Consumer Council survey has the following findings on Hong Kong consumers' take on health foods.
 - One-fifth of consumers taking health foods have little or no concern over the effectiveness of the products.
 - An overwhelming majority of consumers apparently in good health are taking health foods.
 - The opinion survey, based on 474 consumers of health foods, showed that nearly half of the respondents regularly and habitually take health foods.
 - The findings suggest that satisfaction with health food is not necessarily a reflection of the product effectiveness. It might be more of a psychological need, regardless of whether or not the products possess any health enhancement effect.
 - Generally, consumers try a new health food because of word of mouth from friends or relatives, or/and by the heavy media advertising as the next most influential source of information.
 - Consumer spending on health foods could reach up to US\$465 over a six-month period.
- According to a market survey conducted by the Consumer Council between June and August 2004, a variety of 192 health food products were found to be commonly available in Hong Kong through retail outlets of supermarkets, health food shops, chain pharmacies and convenience stores. Among these 192 products were 91 Traditional and Complementary Medicines (TCM), and 101 western health foods. Examples of TCM include Chinese medicinal fungi such as lingzhi, herbal teas and pills, etc. Western health foods are mostly vitamin and mineral supplements, shark liver oil and deep-sea oil capsules, etc.
- Consumption of wine is growing in popularity in Hong Kong. The number of wine retail stores is steadily expanding.

General Import and Inspection Procedure

- Food products can be imported to Hong Kong duty free. As for technical import requirements, the basic tenet is that no food intended for sale should be unfit for human consumption. Products which require import permits/health certificates include meat, milk and frozen confections. The Hong Kong government encourages food importers to produce health certificates for the importation of seafood products to expedite custom clearance. It accepts import applications from Hong Kong importers; U.S. exporters are not required to apply for import permits. However, U.S. exporters may need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government.
- Currently Hong Kong does not have any nutrition labeling requirements or guidelines. The government, however, intends to implement a mandatory nutrition labeling system for all prepackaged foods and aims to introduce the drafted legislation to the Legislative Council in 2006. With the grace period allowed, all prepackaged food items would have to carry a nutrition label by 2010 at the earliest. Details refer to Gain Report HK#5020.
- For more information on food import regulations, please also refer to the "Hong Kong Food and Agricultural Import Regulations and Standards, Importation of Food & Agricultural Products to Hong Kong 2005". Gain Report #HK5021.

Labeling of Biotech Foods

The Hong Kong government is considering to adopt voluntary labeling and pre-market safety assessment for biotech foods but has set no timetable for implementation.

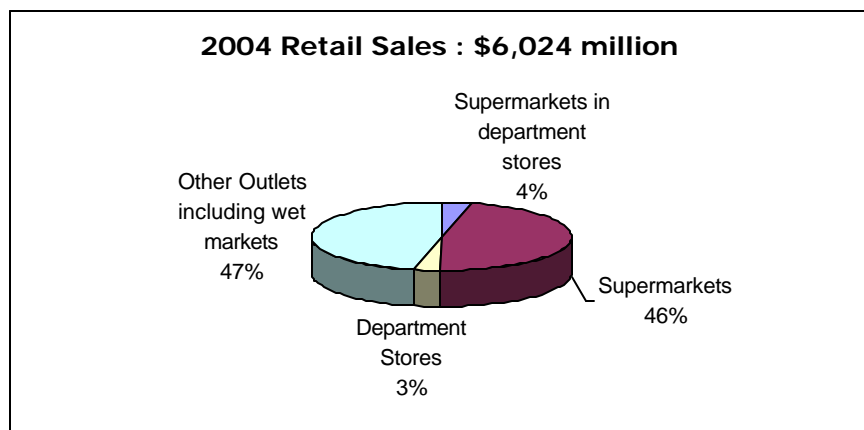
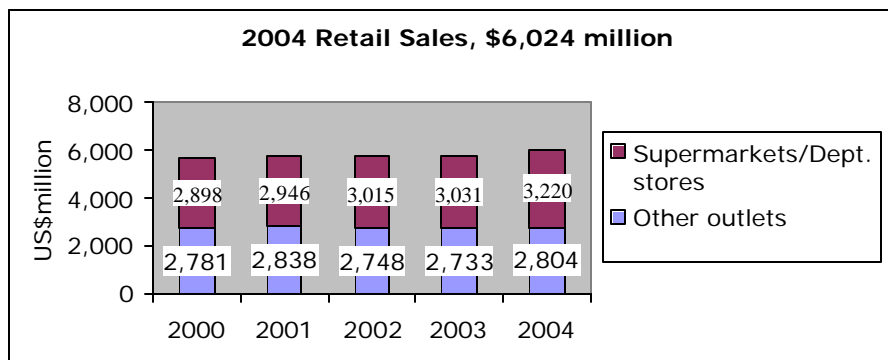
Section III. Market Sector Structure and Trends

Among the three major market sectors of Hong Kong: the retail and HRI (Hotel, Restaurant and Institutional) sectors present the best opportunity for U.S. exporters. The Food Processing sector in Hong Kong is very small and presents less opportunity for market development.

Food Retail

- Total retail sales of food and drinks in Hong Kong for 2004 reached \$6 billion. For January - July 2005, retail sales of food, alcoholic drinks, and tobacco for traditional markets and supermarkets, increased 4.9 percent and 5.9 percent respectively, compared with the same period last year. The sentiment for spending is promising.
- Retail establishments in 2003 amounted to approximately 15,527, which included (1) 99 supermarkets and convenience store establishments (including retail outlet branches, estimated at about 900) and (2) 15,428 wet market stalls and "mom and pop" shop operators. Retail shops in Hong Kong generally are very small in size, about 98 percent of which hire less than 10 employees.
- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Much of the shopping is still done in traditional markets including wet markets and mom-and-pop shops. However, sales in supermarkets are increasing. The supermarket's share in terms of retail sales has risen from 44 percent of total sales in 1995 to 53 percent in 2004. Many supermarkets in Hong Kong now have

successfully tapped the fresh food market by offering fresh foods at very competitive prices and providing a comfortable shopping environment, which is very different from traditional wet markets. In 2000, only \$524 million worth fresh/chilled meat, fish, fruit and vegetables and frozen food were sold in supermarkets. The sales values of the same category in supermarkets greatly expanded to \$629 million in 2004, increasing 20% over 2000.



- In short, wet markets are strong in fresh foods, while supermarkets are strong in processed, high added value, and canned food products. The competition between wet markets and supermarkets has intensified in recent years. Some wet markets have turned air-conditioned and provide free shuttle to nearby residential areas. In the next few years, the Hong Kong Government has earmarked over \$77 million to improve the environment of wet markets. Meanwhile, more and more supermarkets have been renovated to make sales of fresh meats possible and to enhance the overall experience of the convenience shopping at a supermarket.

Supermarkets

- There are two dominant supermarket chains in Hong Kong: The Wellcome Co. Ltd. (240 outlets with 21 superstores) and ParknShop (over 215 with 52 superstores). ParknShop and Wellcome account for about 80 percent of the supermarket turnover. Both supermarkets are able to work closely with real estate developers to open stores in strategic locations, thus maintaining their significant market share. The other players include: China Resources Supermarket (CRC), Dah Chong Hong, Jusco and City Super.

- In recent years, a "shopping mall" concept has emerged in the operation of some new superstores, i.e., a variety of services are provided. For example, a Wellcome superstore, with a floor area of 54,000 square feet, provides massage service. A doctor specializing in Chinese medicine has an office within the store providing consultation to patients. The largest ParknShop store in Hong Kong has a floor area of 72,000 square feet and sells over 20,000 product categories ranging from snacks to electrical household appliances. This ParknShop megastore contains a zone in which all goods are priced at HK\$8, in a move that could set off a war with existing HK\$10 bargain stores. The HK\$8 zone features 1,000 Japanese-style items ranging from cooking utensils to skin-care products.
- ParknShop is also associated with three other supermarkets by the name of Great, Taste, and Gourmet. These high-end supermarkets are after the more affluent clientele. They are ideal outlets for innovative, quality and priced international food products. Great adopts a stylish international food hall concept and its flagship store offers over 46,000 gourmet items. The first 35,000 square feet TASTE food galleria was opened in November 2004, and features more than 25,000 quality food items sourced from around the world. Gourmet, opened in 2005, occupied 15,000-square-foot store offering a selection of over 20,000 products carried across 30 merchandise categories of quality and premium foods. The average expenditure per customer for Gourmet and Taste is expected to be \$18 and \$13 respectively. The Gourmet management is expecting 2000 customers each day in the first year.
- Almost all Hong Kong supermarkets require listing fees, that is, a fee charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The listing fees are extremely negotiable and vary greatly among different supermarket chains. For example, Wellcome and ParknShop, which have many branch stores, have expensive listing fees. A product with five SKU categories is expected to pay U.S.\$26,000 to U.S.\$39,000. On the other hand, Jusco, a supermarket in a Japanese department store, charges U.S.\$150 for all its stores. The agent will not bear this cost, which is transferred to the principal. In short, all supermarkets require listing fees except those belonging to Japanese department stores. (Jusco is the only Japanese department store food retailer that requires a listing fee.)
- U.S. exporters should be prepared to encounter numerous trading term demands from Hong Kong food retailers, such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S. exporter has to pay to the retail chain based on the annual turnover); D.G.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); and incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15 percent of the annual turnover has to be rebated to the major supermarkets and 8 percent to small ones.
- Different products have different mark-ups. A dried fruit importer revealed that an importer usually operates on a mark up of 5% to retailers who would then mark up another 30% to 35% to consumers.
- There is excellent potential growth in Hong Kong's retail food market for U.S. grocery store items, particularly new and different items, as food retail outlets continue to increase and diversify. Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to Britain, Australia, New

Zealand, and Canada for supplies. In recent years, however, buying habits are shifting and many more American items are now available on local grocery store shelves. Supermarkets tend to use consolidators to help them source new products which are popular in the United States.

Report by the Consumer Council

- According to a report released by the Consumer Council in August 2003, there are some findings with regard to supermarkets. First, prices at the big two supermarkets and CRC over the first half of 2003 had gone up by an average of 1.5% compared with a year earlier. When discounts and promotions were taken into account, average prices had dropped by 0.8%. However, government figures show that deflation for June 2003 was running at 3.1 percent, year on year.
- Secondly, in the six years from 1996 to 2001, there has been a substantial decline of small supermarket operators by approximately 41%.
- Thirdly, from 1993 to 2003, the two major supermarket chains have grown 29% by number of retail outlets (31% for Wellcome and 28% for ParknShop respectively).
- The Consumer Council warned that consumers would be deprived of choice if the market was monopolized - especially as smaller supermarkets and wet markets were phased out. When there is a lack of fair competition, supermarket giants may control the variety of products available. Therefore, it called for a wide-ranging law on fair competition, and a high-powered authority to oversee it.
- The Hong Kong government responded that there was no sign the two dominant supermarket chains engaged in anti-competitive acts or abused their market power. The government said it did not see the need for a competition law.

Market Entry Approach

- Through setting up a representative office in Hong Kong: While this is the most effective approach, it is very costly.
- Through U.S. Consolidators: Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. However, the product quantities requested per shipment are usually small, especially when new products are purchased to test the market.
- Through Hong Kong agents: This is the most popular approach. The advantage of having an agent is that it can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well-established companies have extensive distribution networks not limited to one or two supermarkets.
- Direct to Supermarkets: For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive listing fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.

- Direct selling to supermarkets is difficult to handle because they demand strict on-time delivery and very often will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if they deal directly with retailers.

Convenience Stores

- There are around 900 convenience stores in Hong Kong. Two major chains dominate the market: 7-Eleven (650 outlets) and Circle K (223 outlets). They are targeting the customer age group of 15-35. Convenience stores are characterized by round-the-clock operation. Since only a limited choice of brand names is available and prices are generally less competitive, most purchases are "convenience" in nature, i.e. goods are normally bought in small quantities for immediate consumption. The average store size of a convenience store is 1,000 sq. ft. Listing fees are also required for convenience stores.
- Dairy Farm, which owned both Wellcome and 7-Eleven, acquired Daily Shop convenience stores in September 2004. The 87 Daily Shop convenience stores were converted to 7-Eleven making the total number of 7-Eleven stores to 650. These stores are strategically located in MTR (subway) and KCR (train) stations, popular shopping malls and housing developments throughout Hong Kong. After acquiring Daily Shop, 7-Eleven accounted for 73% of all the convenience stores at MTR (subway) stations, compared to the 30% market share before the taking over.
- According to a study, Hong Kong can accommodate 1,200 convenience stores. Given that there are about 900 stores presently, there is still a room for expansion. The primary strategy of convenience stores is to increase services providing "convenience" to consumers and to increase the number of stores so as to reach economies of scale. 7-Eleven, operated on a franchise basis, is able to expand the number of stores quickly. Circle K is owned by a listed company and does not work on franchise basis.
- A new development in 2003 is that ParknShop expanded into 24-hour convenience store operations. The supermarket giant has opened six stores under the name ParknShop Express on a trial scheme and may expand the network across Hong Kong if the experiment succeeds. ParknShop has intrinsic competitive advantages over its rivals because it can use the leverage of the group's existing infrastructure to offer products at low prices. The stores carry the products as other convenience stores such as cooked food, drinks, newspapers and magazines. In a bid to lure customers, the 1,000 products offered by ParknShop Express are priced at the same level as those being sold at ParknShop. This is in contrast to other convenience store operators charging at a premium of up to 15 per cent from those selling at supermarkets.

Market Entry Approach

- Convenience stores largely buy goods from local importers and agents. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores.

Traditional Markets

- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. Traditional markets used to account for the

lion's share of food retail. For example, they occupied around 54 percent of total retail food sales between 1995 and 1997. Yet supermarkets sales have exceeded traditional markets sales since 1998, and the dominating trend of the former is likely to persist and enlarge in the future. Despite the growing significance of supermarkets in terms of food retailing, traditional markets remain as key food retail outlets, particularly for seafood, meat and groceries. Wet markets in Hong Kong have changed gradually over the years. The newly built markets are air-conditioned and more hygienic and more environmentally pleasant than the old ones. Some, but not all, stalls in wet markets have freezers and chilling equipment, which is necessary to maintain food quality.

- Mom-and-pop shops around the housing estates and schools are ideal retail outlets for drinks and snack foods. One feature of traditional markets is that stalls are small, but the service they offer is personal.
- A traditional mom-and-pop shop which started business in 1990 has expanded to 54 stores spreading all over Hong Kong in recent years. The stores are called Yu Kee, with floor area ranging around 1,500 sq. feet each. They sell mainly processed foods and produce. Most of the food supplies come from China and South East Asia. They also import snack foods and drinks from Europe. However, U.S. foods are not yet on their shelves. The stores feature cheap prices and are after the mass market.
- Another chain store worth mentioning is called Magic House. With 100 retail stores, they operate like "convenience stores" except that their business hours are only around 10 hours instead of 24 hours. They primarily sell snack foods, drinks and ice cream.

Market Entry Approach

- U.S. exporters must go through local importers/agents that have a good distribution networks.

Trends in Promotional/Marketing Strategies and Tactics

- Supermarkets expanding store size: The supermarket industry is undergoing a face-lift to introduce larger size stores with an objective to provide one-stop shopping and convenience for customers. In addition to traditional grocery and household products, supermarkets are moving towards larger, more modern stores with more fresh food.
- Increasing demand for promotion package and discounts: Hong Kong consumers are very price sensitive. Marketing tactics such as selling larger economy packs or enclosing complimentary samples are usually used to stimulate sales. The most direct and effective marketing tool is to offer discounts.
- Various promotions have varying impact on consumers' purchasing decisions. Given below were the findings of a survey by Consumer Council. Nearly 75 percent of the respondents opted for "Direct Price-Cut" as the most important factor in prompting them to buy the goods. This was followed by "Buy One Get One Free" or "Buy Two Get One Free" (55.5 percent); "Add \$1 for One More" (42.7 percent); "Add-Volume Pack" (39.8 percent); and "Free Gift/Coupon" (19.8 percent) which had the least impact on bargain hunters.

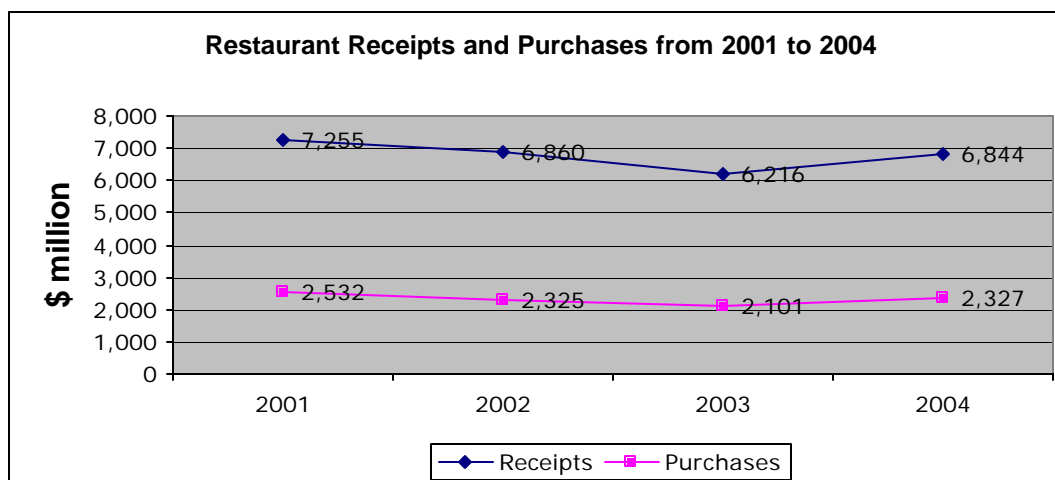
- In face of strong competition, major supermarket stores very often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power as they have many retail outlets, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.
- According to a survey by AC Nielsen, Hong Kong consumers are by far the most impulsive shoppers in the region with 67% who make unplanned purchases. In contrast, other countries with a relatively high proportion of non-planners are Thailand (14%) and Singapore (14%). As such, in-store promotions seem to be effective to introduce new products and to stimulate impulsive purchases.
- Consumers becoming increasingly health-conscious, and organic products picking up in popularity: There has been a gradual change in what consumers want in Hong Kong. The importance of meat, especially red meat, has declined among some consumers, while other food groups, such as fruits and vegetables, are gaining in popularity. Consumers increasingly look for freshness, healthiness, new varieties and shorter meal-preparation time for food. Consumers want foods of higher nutritional value, but also increasingly pay attention to food safety and hygiene. In short, the marketing trend is to position food products as a healthy, natural, nutritional, etc.
- Organics: The market for organic food, especially fresh vegetables, has picked up considerably in the past few years. ParknShop, the biggest supermarket chain in Hong Kong, set up a separate organic food section in many of their stores. A trader of mainland grown organic vegetables has seen his orders steadily increasing. A local producer of organic vegetables said his produce has been experiencing strong demand, and his farm broke even two years after it started operating in 1988.
- Internet direct sales of food: Major supermarkets like ParknShop, Wellcome, and City Super offer grocery shopping over their website. The service is however not attracting a lot of interest, due to the convenience of shopping in Hong Kong, security concerns and the cost of delivery.
- However, the at-work population in Hong Kong is becoming a coveted audience among marketers to leverage the Internet as a medium of advertising. The at-work online audience is large and growing - out of the total Hong Kong workforce of 3.52 million, about 20 % regularly go online at work. These regular Hong Kong internet users are a demographically attractive group of individuals who have higher than average incomes, educations and tendencies to shop and buy online.
- Growing awareness of U.S. products fit supermarkets' needs to diversify product range: With awareness of the high quality and variety of U.S. food products increasing among supermarkets, there are many opportunities to introduce new U.S. products to the local market. ATO Hong Kong selectively invites key supermarket buyers to the United States on U.S. buying missions, which are followed by in-store promotions highlighting U.S. products. Buyers from Hong Kong supermarkets realize the quick-changing consumption temperament of local consumers, and many have expressed the need to source new products to capture changing tastes. With strong support from exporters and state regional trading groups, the ATO continues its efforts to promote U.S. products and help supermarkets expand the range of U.S. products they carry.
- To promote U.S. food products, the ATO sponsors the HOFEX trade show which will be held May 13 -16, 2007. For health food products, U.S. exporters may consider

participating in the Natural Products Expo Asia 2005 which will take place from November 30 to December 2, 2005.

- For further information on the Hong Kong food retail sector, please refer to "Retail Food Sector Report 2004" (Gain Report #HK4025).

Hotel, Restaurant and Institutional (HRI)

- A revived economy with burgeoning tourism, and rising stock and property markets have attributed to the good prospects of the catering industry for 2005. The HRI business is expected to have growth in 2006 with many positive economic indicators.
- Restaurant businesses in 2004 were greatly recovered from 2003 when Hong Kong severely suffered from the SARS impact. In 2004, the value of total receipts for the restaurants sector was \$6.8 billion and for purchases was \$2.3 billion, representing a rise of 10 percent and 11 percent respectively. For the first half-year of 2005, total restaurant receipts amounted to \$3.5 billion, representing a rise of 5.3 percent over the same period in 2004.



Source : Quarterly Restaurant Receipts and Purchases produced by the Hong Kong Census & Statistics Department

- Hong Kong is renowned as the "Culinary Capital of Asia". It has approximately 11,094 restaurants and other eating-places, providing a wide range of dining options. Eating out is a way of life for many locals.
- Chinese food, in particular Cantonese style foods tend to dominate the restaurant sector. This is evident in that Chinese restaurants account for nearly 50 percent of the 11,094 restaurants in Hong Kong.

	No. of Establishments	Percentage (by number)	Percentage (by receipts)
Chinese restaurants	5,491	50	48
Restaurants, other than Chinese restaurants	3,590	32	26
Fast food shops	1,026	9	19
Bars	485	4	4
Eating and drinking places	502	5	3
Total	11,094	100	100

Source: Hong Kong Census & Statistics Department

- The 30's generation of local Chinese have a greater propensity toward western style foods and are more likely to experiment with non-traditional styles. The growth of non-Chinese chains in Japanese food, fast food, coffee and snack and casual dining establishments has been evident.
- McDonald's, Dominos, Pizza Hut, Kentucky Fried Chicken, Hardee's, Oliver, Pret A Manger, Starbucks, Pacific Coffee and others have all grown rapidly in numbers over the past years and now have become fixtures in the Hong Kong market. California Pizza Kitchen (CPK) was opened in Hong Kong in 2003.
- The fastest developing sector of the market is the fast food outlets. According to a survey conducted by AC Nielsen, Hong Kong people are the world's most frequent patrons of fast food restaurants. The survey revealed that 61 percent of people in the territory eat at a fast food restaurant at least once a week. The popularity of fast food in Hong Kong was mainly due to convenience. The survey showed that the most popular fast food chains in Hong Kong are McDonald, Kentucky Fried Chicken and Pizza Hut.
- As consumers are getting more health conscious, fast food chains have provided more health food menu such as salads, premium juice drinks, etc.
- The major fast food operators, Café De Coral, Maxim's and Fairwood have innovated their menus by introducing numerous new ingredients as consumers become more demanding. These fast food operators are also renovating their older restaurants and adding "cyber corners" to give them a more upscale look, in order to create more value in patrons' minds. The average spending in fast food outlets is HK\$33.90 for dinner, HK\$25.50 for HK\$18.20 for breakfast and HK\$16.60 for afternoon tea. (U.S.\$1.00 = HK\$7.78)
- Exporters should note that tastes in food can often differ between Chinese and Western consumers. Exporters looking to grow business with the HRI trade should focus on U.S. ingredients for Chinese dishes offerings.
- Another key feature of Hong Kong's HRI is the increasingly competitive coffee shop market in Hong Kong with new outlets opening around the city. In recent years, it is a trend to open upstairs cafes in order to cut rental fees. They are largely located in commercial areas. While westerners will stand up and drink a coffee, Chinese people in the Hong Kong market want to sit down and take their time over their sandwich or cup of coffee. Starbucks (50 stores) and Pacific Coffee (39 stores) are Hong Kong's two largest coffee shop chains. Reportedly, the average monthly profit of each Pacific Coffee store amounted to US\$2,580. Starbucks is believed to have even a higher

profit margin. McDonald has also vigorously expanded its McCafe in order to take a slice of the market.

Market Entry Approach

- Because of small individual consumption, local hotels, restaurants and most fast food operators usually cannot afford to import directly. The distribution of food and beverages to these operators is generally through import agents. U.S. exporters should contact Hong Kong importers to explore potential business opportunities.

Trends in Promotional/Marketing Strategies and Tactics

- Participation in trade shows: ATO will participate in the Restaurant and Bar Show which will be held in May 9 –11, 2006. The show provides a showcase for U.S. food ingredients, wine and beverages to Hong Kong's hotel and restaurant trade. In cooperation with cooperators and regional groups, the show will demonstrate the versatility and safety of U.S. food products.
- Menu promotions with major restaurant chains: Menu promotion dollars will be maximized if spent on promotion events held with the major restaurant chains. With the restaurant chains' announced intention to have an image overhaul, this provides for an opportunity to introduce new U.S. foods.
- Inviting restaurant owners/chefs to seminars and/or to the United States: ATO Hong Kong/ cooperators organize seminars and trade missions to the United States with an intention to introduce U.S. products, meet U.S. exporters, and experience U.S. store formats.
- Setting up of several fast food and takeaway websites: There are several meal delivery sites to cater to the home delivery market by fax, telephone, or internet. These sites are in cooperation with a number of restaurants which will prepare the food which clients order.
- For more information on Hong Kong's HRI sector, please refer to Gain report #5006.

Food Processing

- Based on the Chinese mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) which was concluded in June 2003, China has applied zero import tariff on 374 product codes for products made in Hong Kong. Ice cream and other edible ice is the only food item being included in zero tariff product list covered by CEPAI. However, under stage two of the agreement, which was signed in August 2004, another 713 made-in-Hong Kong product categories are allowed entry to China tariffs free. Zero tariff were introduced to 529 product categories on January 1, 2005, the remaining 184 on January 1, 2006. Under CEPAIL, a range of food and agricultural products, if qualified to have Hong Kong origin, can be exported to China tariff free.
- The CEPAIL zero tariff product list includes aqua – marine products (certain live, fresh, chilled or frozen fish, shrimps and prawns, crabs), food and beverages, (certain dairy products such as yogurt and cheese, certain prepared meats, certain sugar confectioneries and cocoa preparations; certain preserved meats and seafood, bread, biscuits and cakes; preserved vegetables and fruits, fruit juices; sauces, water, etc.)

and leather and fur products. The 2005 China bound tariff rates under WTO accession of those products range from 5% to 51%.

- China's zero import tariff applications for products made in Hong Kong certainly encourage food production in Hong Kong. Hong Kong brand products have a competitive edge in the Mainland China market. The expansion of the local food processing industry will then trigger off a demand for raw materials. Such demand provides export opportunities for U.S. food ingredients suppliers.
- A full zero-tariff product list is available at <http://www.tid.gov.hk/english/cepa/cepa2.html>
- The food processing industry in Hong Kong is relatively small compared to food retail and HRI sectors. The total output of the local food processing industry was US\$2 billion in 2002 and there were 717 food processing establishments as of 2004. Major local production includes instant noodles, macaroni, spaghetti, biscuits, pastries and cakes for both domestic consumption and export. Other significant sectors include canning, preserving and processing of seafood (such as fish, shrimp, prawns, and crustaceans); manufacture of dairy products (fresh milk, yogurt and ice cream); seasoning and spirits.

Market Entry Approach

Food ingredients are sourced both through direct import by food processors and through middleman traders. Hong Kong traders and end-users tend to stay with suppliers with whom they know well and have done business with for some time. While exporters would do well exploring all channels, patience and understanding are required to establish a relationship of trust before trading can commence.

SECTION IV. BEST CONSUMER ORIENTED PRODUCT PROSPECTS

Product Category	2004 Market Size (MT)	2004 Market Size (\$ mil)	2000 – 2004 Average Import Growth (in value)	Key Constraints Over Market Development	Market Attractiveness For USA
Fresh Fruit	567,089	503	-2%	<p>There is strong competition from other countries such as Australia, South Africa, Chile and China for apples, oranges and grapes.</p> <p>Also, there is strong competition coming from other tropical fruits which are supplied by Thailand.</p>	<p>U.S. accounted for 34% of the market share.</p> <p>Consumers have confidence in U.S. fruits' quality and product safety.</p>
Poultry Meat	419,814	404	11%	Strong competition from Brazil exists and buyers are price conscious.	<p>U.S. accounted for 27% of the market share.</p> <p>U.S. products have abundant supplies with a variety of grades.</p>
Tree Nuts	54,163	163	48%	60% of the tree nuts imported to Hong Kong are pistachios and Iran is the major supplier.	U.S. is the leading supplier of almonds and hazelnuts with no major competitors at all.
Processed Fruit & Vegetables	161,673	192	1%	U.S. is strong in a few products like French fries, canned potato chips and processed sweet corn.	<p>U.S. accounted for 27% of the total market.</p> <p>U.S. French fries, and sweet corns hardly have any significant competitors in</p>

					<p>the Hong Kong market.</p> <p>Hong Kong has a burgeoning catering industry</p>
Red Meats, Prepared/Preserved	103,626	195	4%	<p>China supplies dominate the market because there is a big demand for price competitive prepared/preserved meatballs and other products typical in Chinese dishes in Chinese restaurants and processing in China is cost effective.</p> <p>Note: U.S. beef products are banned because of BSE.</p>	<p>U.S. accounted for 15% of the market share.</p> <p>U.S. is the largest supplier of sausages.</p> <p>U.S. products are highly regarded for quality and food safety.</p>
Molluscs	45,594	485	6%	<p>U.S. scallops and oysters compete severely with products supplies from Australia and Canada respectively.</p>	<p>U.S. accounted for 5% of the market share.</p> <p>Demand for seafood in Hong Kong is strong. U.S. oysters and scallops are highly regarded in the market.</p>
Ginseng	1,236	86	-1%	<p>Canadian ginseng is offered at very competitive prices and has abundant supplies.</p>	<p>U.S. accounted for 19% of the market share.</p> <p>Hong Kong Chinese regards ginseng as a healthy product and is widely used in soups.</p>
Sauces	63,749	86	5%	<p>China and Thailand are two major competitors. The</p>	<p>U.S. accounted for 19% of the market share.</p>

				oriental flavor of sources from these countries is a distinct advantage.	Hong Kong people are receptive to new tastes. The availability of much international cuisine offers a demand for U.S. sauces.
Red Meats, chilled/frozen	297,382	494	3%	Hong Kong currently bans U.S. beef imports because of BSE. The market share of U.S. beef has been largely taken up by Canadian beef and Australian beef.	U.S. accounted for 16% of the retained import share in 2003 when U.S. beef trade with Hong Kong was normal. U.S. beef is highly regarded in Hong Kong. It is always the first choice for high-end restaurants and sophisticated consumers.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Foreign Agricultural Service (FAS)

Home Page: <http://www.fas.usda.gov>

Agricultural Trade Office

American Consulate General

18th Floor, St. John's Building

33 Garden Road, Hong Kong

Tel: (852) 2841-2350

Fax: (852) 2845-0943

E-Mail: ATOHongKong@usda.gov

Internet Homepage : <http://www.usconsulate.org.hk>

<http://www.usfoods-hongkong.net>

Department to implement food safety control policy

Food & Environmental Hygiene Department

43/F., Queensway Govt Offices

66 Queensway

Hong Kong

Tel: 852-2868-0000

Fax: 852-2834-8467

Web site: <http://www.fehd.gov.hk>

E-mail: enquiries@fehd.gov.hk

Department to control the importation of plants & live animals

Agriculture, Fisheries & Conservation Department

5-8/F., Cheung Sha Wan Govt Offices

303, Cheung Sha Wan Rd

Kowloon, Hong Kong

Tel: 852-2708-8885

Fax: 852-2311-3731

Web site: <http://www.info.gov.hk/afcd>

E-mail: mailbox@afcd.gov.hk

Department to issue licence for imported reserved commodities

Trade & Industry Department

18/F., Trade Department Tower

700 Nathan Road

Kowloon, Hong Kong

Tel: 852-2392-2922

Fax : 852-2789-2491

Web site: <http://www.info.gov.hk/tid>

Email : enquiry@tid.gov.hk

Department to register health foods containing medicine ingredients

Department of Health
Pharmaceuticals Registration
Import & Export Control Section
18th Floor, Wu Chung House
213 Queen's Road East, Wanchai
Hong Kong
Tel : 852-2961-8754
Fax : 852-2834-5117
Web site : <http://www.info.gov.hk/dh/index.htm>

Department to issue licence for imported dutiable commodities

Hong Kong Customs & Excise Department
Office of Dutiable Commodities Administration
6-9th floors, Harbor Building
38 Pier Road
Central
Hong Kong
Tel: 852-2815-7711
Fax: 852-2581-0218
Web site: <http://www.info.gov.hk/customs>
Email: customsenquiry@cutsoms.gov.hk

Department for Trade Mark Registration

Intellectual Property Department
Trade Marks Registry
24th and 25th Floors, Wu Chung House
213 Queen's Road East
Wan Chai
Hong Kong
Tel: 852-2803-5860
Fax: 852-2838-6082
Web site: <http://www.info.gov.hk/ipd/eng/index.htm>

Semi-government Organization Providing Travel Information

Hong Kong Tourist Association
9th - 11th floors, Citicorp Center,
18 Whitfield Road, North Point, Hong Kong
Tel: (852) 2807-6543
Fax: (852) 2806-0303
E-mail: info@hkta.org
Home Page: www.hkta.org

Semi-government Organization Providing Hong Kong Trade Information

Hong Kong Trade Development Council
38th Floor, Office Tower, Convention Plaza

1 Harbor Road, Wan Chai, Hong Kong
 Tel: (852) 2584-4188
 Fax: (852) 2824-0249
 E-mail: hktcdc@tdc.org.hk
 Home Page: <http://www.tdctrade.com>

APPENDIX - STATISTICS

Table A. Key Trade & Demographic Information

Year 2004

Agricultural Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$7,518 million/ 15%
Consumer Food Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$4,944 million/ 16%
Edible Fishery Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$1,793 million/ 3%
Total Population (Millions) / Annual Growth Rate (%)	6.88 million /1.2%
Urban Population (Millions) / Annual Growth Rate (%)	6.88 million/1.2%
Number of Major Metropolitan Areas	One (Hong Kong as a whole)
Size of the Middle Class (Millions) ^{1/}	2 million
Annual Per Capita Gross Domestic Product (U.S. Dollars)	\$24,200
Unemployment Rate (%)	5.7% (May-July 2005)
Annual Per Capita Food Expenditures (U.S. Dollars)	\$1,870
Percent of Female Population Employed	51.8%
Exchange Rate (U.S.\$1 = HK currency)	HK\$7.75

Note : The middle class, about 30 percent of all households, is based on the expenditure pattern of households which have an average monthly expenditure of \$2,194 – \$3,845. The average household size is 3.1 persons.

Table B: Consumer Food & Edible Fishery Product Imports

Hong Kong Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S. Market Share		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
CONSUMER-ORIENTED AG TOTAL	5,048	4,904	4,944	1,077	1,021	805	21	21	16
Snack Foods (Excl. Nuts)	231	218	245	13	14	15	5	6	6
Breakfast Cereals & Pancake Mix	23	27	29	8	10	6	32	35	20
Red Meats, Fresh/Chilled/Frozen	634	731	743	117	151	41	18	21	6
Red Meats, Prepared/Preserved	176	194	220	35	30	32	20	15	14
Poultry Meat	647	639	520	319	264	154	49	41	30
Dairy Products (Excl. Cheese)	299	241	264	17	9	7	6	4	3
Cheese	34	32	45	3	3	4	10	10	9
Eggs & Products	83	74	79	15	12	13	18	16	16
Fresh Fruit	796	734	693	231	237	223	29	32	32
Fresh Vegetables	161	156	158	17	12	11	10	7	7
Processed Fruit & Vegetables	260	225	232	75	56	57	29	25	25
Fruit & Vegetable Juices	21	23	23	7	6	8	33	26	35
Tree Nuts	191	250	205	64	62	60	34	25	29
Wine & Beer	141	132	155	15	14	15	11	11	10
Nursery Products & Cut Flowers	56	50	50	1	1	1	2	1	1
Pet Foods (Dog & Cat Food)	24	34	40	11	13	16	45	38	41
Other Consumer-Oriented Products	1,268	1,146	1,243	128	128	142	10	11	11
FISH & SEAFOOD PRODUCTS	1,763	1,659	1,793	51	52	50	3	3	3
Salmon	51	50	51	1	1	1	0	0	1
Surimi	6	5	6	1	0	0	1	0	0
Crustaceans	443	329	311	13	8	6	3	2	2
Groundfish & Flatfish	111	122	157	3	4	6	3	3	4
Molluscs	472	474	549	20	25	24	4	5	4
Other Fishery Products	679	678	720	15	15	13	2	2	2
AGRICULTURAL PRODUCTS TOTAL	7,366	7,321	7,518	1,343	1,354	1,103	18	18	15
AG, FISH & FORESTRY TOTAL	10,252	9,953	10,184	1,521	1,534	1,259	15	15	12

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table C: Top 15 Suppliers of Consumer Foods & Edible Fishery Products**Reporting: Hong Kong - Top 15 Ranking****CONSUMER-ORIENTED AG TOTAL - 400**

	2002	2003	2004
	1000\$	1000\$	1000\$
China	1,390,025	1,363,346	1,479,114
United States	1,076,912	1,020,603	804,667
Brazil	260,782	326,744	394,778
Australia	245,152	221,828	237,261
Thailand	280,977	253,420	227,202
Netherlands	173,314	154,984	159,951
Japan	146,663	133,370	145,333
Canada	110,217	113,674	120,204
France	84,464	88,190	114,074
Iran	82,496	143,203	108,943
New Zealand	105,202	92,976	106,921
Germany	97,495	94,199	84,245
Taiwan (Estimated)	82,957	81,404	80,986
Singapore	105,359	78,560	79,921
Chile	67,597	69,885	76,112
Other	738,109	668,027	723,779
World	5,047,733	4,904,424	4,943,503

FISH & SEAFOOD PRODUCTS - 700

	2002	2003	2004
	1000\$	1000\$	1000\$
China	288,215	271,133	255,287
Japan	189,890	207,519	219,797
Australia	206,088	183,413	186,478
South Africa	54,611	38,859	91,629
Indonesia	101,481	86,909	91,003
Thailand	85,473	78,548	79,116
Canada	74,918	71,309	77,842
Vietnam	62,143	51,096	75,002
Spain	36,301	45,427	51,705
United States	50,827	51,861	50,091
New Zealand	70,393	48,045	48,425
Norway	45,494	47,924	46,758
Singapore	31,702	32,493	45,291
Taiwan (Estimated)	64,098	51,771	41,102
Philippines	38,039	40,225	40,347
Other	363,737	352,396	393,416
World	1,763,405	1,658,921	1,793,293

Source: United Nations Statistics Division